

Manager's Quick Reference to Compensation Decisions

GENERAL POINTS

- Compensation practices are intended to be effective tools in addressing business needs. While decisions should not be based on emotion, feel comfortable with the opportunity and flexibility these provisions provide.
- With the flexibility allowed in making pay decisions, be sure to understand the purpose and limits for each type of movement and differential. Consider your agency's parameters along with state personnel system policies.
- Take a longer-term perspective and be mindful of the impact on budgets. Anticipate all of the actions that will or may occur over the next year. Remember salary survey adjustments are automatic and base building. Also consider performance awards under your agency's performance pay program.
- Carefully examine the **total compensation** picture to avoid unintentionally over-expending at a future point or setting an unintended precedent.
- There are a number of non-salary options available that can be very powerful motivators. Consider them along with the cash components, e.g., benefits, leave, work-life options. Remember the whole package.
- Each agency is strongly encouraged to create a review process to examine each potential compensation decision. *If you need help with pay components or potential scenarios, please ask.*
- Do all of this **before** any negotiations or offers to employees or applicants. Be sure you and the employee understand all the components and conditions of an offer, including limits and ending dates.

HIRES (new or returning to the state personnel system)

- May set **base** salary anywhere from minimum to maximum in the appropriate pay range.
- Hiring above the minimum should be a unique practice due to labor market shortages in order to avoid inflating labor costs (hires and compression with current staff) or setting an unintended precedent for the future. Can you clearly articulate and defend your rationale for this decision? In relation to others, past or future?
- Although the hire rate is base building, discretionary pay differentials and, if appropriate, other pay premiums may also apply.
- **Considerations** (along with budget and agency parameters):
 - ✓ market conditions;
 - ✓ retention or turnover rates and all of the causes;
 - ✓ uniqueness of competencies and background in relation to the total applicant or talent pool;
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget;
 - ☞ Don't forget to figure in other pay premiums that may be applicable, e.g., discretionary pay differentials, shift differential, planned overtime, etc.

- ✓ non-salary options that could be mixed to make the total compensation decision; and,
- ✓ position of current staff within the range.

UPWARD (range with higher maximum) **AND LATERAL** (same range or range with same maximum)

- Base salary can remain the same or increase by any amount up to and including the maximum.
- All increases are **base** building.
- **Considerations** (along with budget and agency parameters):
 - ✓ market conditions, retention or turnover rates (and causes), position of current staff and hires within the range, other pay premiums that may be applicable, non-salary options, and uniqueness of competencies in relation to the talent pool (refer to considerations under “Hires” section);
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget;
 - ✓ degree of change to the assignment and its worth to the organization. For example, a lateral move to a new occupation may be more valuable than a lateral or a promotion up a level in the same occupation.

DISCRETIONARY PAY DIFFERENTIALS (four types)

- An agency must have a written plan in place **before** a discretionary pay differential is used. Be sure it is communicated to all employees. Consider involving employees in the creation of a plan.
- An individual written agreement is required each time a discretionary pay differential is used.
- Non-base building differentials, in combination with other pay, cannot exceed the statutory lid in any given month.
- These differentials are not a substitute for position allocations, promotions, or performance awards.

Matching Pay Differential.

- ☞ Applies to current employees in the state personnel system.
- ☞ Can be **base or non-base** building. This is different from the other discretionary pay differentials. Base building is subject to the maximum of the grade.
- ☞ **Uses.** Counteroffer to a verifiable bonafide job offer.

OR

Adjust the pay of longer-term employees who are below the in-grade hire level consistently used for new hires. Base building is recommended for compression adjustments (bringing current employees closer or up to the rate of new hires). There must be ongoing recruitment/retention difficulty, which was the basis for consistently using in-grade hires over a period of time.

Signing Bonus.

- ☞ Applies to new employees to the state personnel system.
- ☞ There must be documented recruitment and retention problems.

- ☞ The bonus is **non-base** building.
 - ☞ Consider paying the bonus in at least two payments -- part when the person reports to work and the remainder after a specified amount of time, e.g., 6 months or completion of probation.
- ☞ **Use.** Fill positions in critical occupations or attract unique critical skill sets in relation to market.

Referral Award.

- ☞ Applies to current employees, except HR professionals who recruit and hiring authorities.
- ☞ There must be documented recruitment and retention problems for unique skills.
- ☞ The award is **non-base** building.
 - ☞ Pay the award in at least two payments -- part when the new employee reports to work and part after a specified amount of time, e.g., 6 months or completion of probation. Consider requiring that the current employee, and possibly the new employee, still be employed at the time the second payment is due.
- ☞ **Use.** Reward an employee for referring a person who is subsequently hired into a position requiring unique critical skill sets in relation to the market.

Temporary Pay Differential.

- ☞ Applies to current employees.
- ☞ The differential is **non-base** building and paid through regular monthly payroll.
- ☞ **Uses.** “Acting” assignment where the employee has assumed the **full** set of duties from a higher-level position. The “acting” assignment must be *longer than 30 days and cannot exceed 6 months* for purposes of eligibility for differential pay.

OR

Critical, long-term project that is *outside the normal assignment* and critical to the mission of the agency.

OR

Retain a critical, unique set of specialized skills where the loss of the skill set would result in documented severe impact on the agency and its mission.

- **Considerations** (along with budget and agency parameters):
 - ✓ market conditions, use of in-grade hiring, retention or turnover rates (and causes), position of current staff and hires within the range, other pay premiums that may be applicable, non-salary options, and uniqueness of competencies in relation to the talent pool (refer to considerations under “Hires” section);
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget;

DOWNWARD (range with a lower job rate)

- Downward movements have very specific provisions. *It is recommended that you work closely with your agency HR professionals on downward movements.*
- Job evaluation activity (individual position review, system maintenance study, annual salary survey adjustment). A “saved pay” statute applies and base salary **must** remain unchanged for up to three years from the effective date.

- Non-disciplinary and disciplinary demotions. Base salary may be set anywhere in the new range, up to the maximum of the range that does not exceed current base salary.
 - ✓ In the case of a layoff, the agency should be consistent regarding preserving pay up to the maximum of the new range.
- **Considerations** (along with budget and agency parameters):
 - ✓ refer back to the considerations in other sections; and,
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget.

Other sources of information:

- Agency human resources office
- Open Ranges & Pay Differentials at www.colorado.gov/dpa/dhr.
- Director's Administrative Procedures Chapter 3, at www.colorado.gov/dpa/dhr.

Prepared by the Total Compensation/Systems Team, Division of Human Resources, Department of Personnel & Administration. Updated 7/1/03.

Sample

MANAGER'S COMPENSATION DECISION WORKSHEET

Today's Date ____/____/____

Effective Date ____/____/____

Division _____

Work Unit _____

Employee/Candidate Name _____ Position # _____

Current class/code _____ New class/code _____

Helpful Hint: Fill in the salary figures on the pay lines as a visual aid (include current base pay).

Current Grade _____

Min.

Max.

New/Hire Grade _____

Min.

Max.

Monthly Earnings	Current	Proposed
Salary Components: (If effective in July, be sure base reflects any survey adjustment and base building performance award.)		
1. Base building: ____ % or \$ ____ proposed increase/hire (subject to max.)	1. \$ _____	1. \$ _____
Discretionary Pay Differentials (subject to lid*)		
2. Signing Bonus: \$ ____ Lump sum in ____ # payments (non-PERA)	2. \$ _____	2. \$ _____
3. Referral Award: \$ ____ Lump sum in ____ # payments (non-PERA)	3. \$ _____	3. \$ _____
4. Matching: (check) ____ Base (____ %) [*subject to grade max.]	4. \$ _____	4. \$ _____
5. ____ Non-base	5. \$ _____	5. \$ _____
Temp. Pay Differential		
6. Acting: end date ____/____/____	6. \$ _____	6. \$ _____
7. Long-term special project: end date ____/____/____	7. \$ _____	7. \$ _____
8. Critical skill: end date ____/____/____	8. \$ _____	8. \$ _____
Pay Premium Increases (received on regular, planned basis)		
9. Overtime: ____ # overtime hours/month x 1.5 base hourly rate	9. \$ _____	9. \$ _____
10. Shift Differential: (check) ____ 2nd ____ 3rd ____ Weekend/Holiday	10. \$ _____	10. \$ _____
11. Other: (specify) _____	11. \$ _____	11. \$ _____
Total Monthly Base Salary (add 1, 4, 9, 10, 11)	A. \$ _____	A. \$ _____
Total Monthly Non-Base (add 2, 3, 5, 6, 7, 8)	B. \$ _____	B. \$ _____
TOTAL MONTHLY EARNINGS (A + B)	\$ _____	\$ _____
Total Impact on Personal Services Budget (monthly), include	\$ _____	\$ _____
10.15% for employer's contribution to PERA (12.85% for troopers). Exclude 2 & 3.		\$ _____
Annualized: monthly difference between current and proposed x # months remaining in fiscal year.		
Other pay increases (for informational purposes)		
Last Salary Survey Increase (within past 12 months): ____ %		
Recommended Salary Survey Increase (next July): ____ %		
Last non-base building Performance Award (July 02): ____ %		
Expected non-base building Performance Award (next July): ____ %		
Any other recent (past and/or expected) pay increases. ____ %		

Justification for proposed increase and for awards/differentials (attach additional sheets if necessary).

Submitted by: _____

Date _____

Approved by: _____

Date _____